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House prices and capital inflows in Spain during the boom: evidence from a cointegrated VAR and a Structural Bayesian VAR*

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Abstract

House prices in Spain escalated rapidly in the run up of the financial crisis. In addition, capital inflows may have influenced the amount of credit available for private use. The aim of this paper is to analyse the relationship between foreign capital flows and house prices in Spain. Based on a cointegrated VAR and a structural Bayesian VAR, it is found that both capital inflows and house price shocks have influenced each other in the run up of the Great Moderation.

Key words: house prices; capital inflows; leveraging; CVAR; structural Bayesian VAR.

JEL code: C22, F15.

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